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Weekly Summary

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August 29, 1975

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

SECRET**PORTUGAL: HANGING ON**

Efforts to break Prime Minister Goncalves' tenacious grip on power seem to have lost some momentum this week. Goncalves appears to have bought some time by threatening to bring his Communist supporters into the streets if he is removed—an action which could result in civil war. The deadline of August 26 that Goncalves' opponents had set for his removal passed with him still in office. A few days later, however, there again were reports that he might be ousted at any moment.

The anti-Goncalves forces, which had gathered support for a relentless drive to oust the Prime Minister and reduce the growing Communist influence, appear to have been sidetracked by President Costa Gomes' vacillation and fear that Goncalves would make good on his threat to provoke civil war. On August 25, representatives of the original nine dissident Revolutionary Council members led by former foreign minister Melo Antunes met with the ruling three-man directorate, and a compromise seemed in the making.

The Revolutionary Council issued a communique the same day announcing three

decisions that seemed to contain something for each faction. General Corvacho, generally considered sympathetic to the Communists, was reinstated as commander of the northern military region, after having been suspended the week before. At the same time, the operations of pro-Communist propaganda division of the armed forces general staff were suspended, pending an investigation, and it was announced that the armed forces general assembly would meet next week.

Rumors of a compromise took on added significance when it was learned on August 26 that army chief of staff Fabiao, designated by the Antunes group to take over as prime minister, had abandoned his efforts to form a new government. Speculation then focused on Admiral Azevedo, navy chief of staff, as a possible successor. Azevedo might be acceptable to many of Goncalves' supporters in the military, but because of his leftist credentials the admiral would probably be rejected by the Antunes group.

In the early hours of August 27, commandos

executed a series of lightning raids 25X1



Goncalves



Costa Gomes

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on offices of the military's propaganda division, which had defied orders to close down. The move was viewed by some as a show of force by the anti-Goncalves faction, whose fortunes had seemed to be slipping. This claim may have been made after the fact, however, to buck up the morale of units who saw their chance of reversing the Communist tide slipping away while their leaders bargained in Lisbon and accepted one stall after another.

The Communists, seeing a chance to retain Goncalves, took the offensive by organizing a united front of extreme leftist parties and revolutionary groups and promising a series of pro-Goncalves rallies throughout the nation. The first of these rallies was held on the evening of August 27, just as another round of emergency meetings of top military officers was about to get under way. With the apparent intention of intimidating President Costa Gomes, who holds the

key to the situation by virtue of his authority to dismiss the prime minister, some 35,000 demonstrators cheered Goncalves but roundly booed the President when he took the platform.

Underlining the growing chasm between Lisbon, the center of Communist strength, and most of the rest of the nation, the Socialist Party organized a rally of some 50,000 persons in the northern city of Porto on the 27th to demand Goncalves' removal and to protest the reinstatement of General Corvacho as regional commander. One member of the Antunes group had earlier predicted the possibility of civil war, regardless of the outcome of the current struggle for power. The growing anti-Communist violence in the north and the apparent determination of the Communists in Lisbon make that seem increasingly likely.

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ITALY: ARMY REORGANIZATION

The Italian army is beginning to reorganize its ground forces. Faced with a tight budget, the army has chosen to maintain expenditures for equipment and reduce those for personnel.

The present 36 brigades are to be reduced by one third, and the oldest third of artillery pieces and tanks phased out. The remaining equipment will be modernized over a 10- to 12-year period. Military officials hope the changes will result in a smaller, less expensive army that is more mobile and better prepared. The new army reportedly will be made up of 3 corps commands, 4 mechanized and armored divisions, and 12 independent brigades with tactical and logistic support. The reorganization will probably not be in full swing for several months, and may take years to complete.

Modernization plans call for a greater number of armored personnel carriers. Motor transport will be increased, over half of the remaining artillery and tanks will be replaced or re-equipped, and the number of anti-tank weapons will jump from about 2,000 to 3,000.

Over the past year, Italian army strength has dropped from 311,000 to about 225,000 men. The army believes that reducing the number of units will allow for more efficient use of the smaller number of troops. Economies from the reduction in personnel will probably be lost to inflation, however, and recent unrest among enlisted personnel will probably require that the armed forces allocate more funds to improve living conditions for enlisted men and noncommissioned officers. Military service chiefs have already dipped into existing equipment-procurement funds to give enlisted men a one-time cost-of-living payment.

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The army has asked parliament for about \$1 billion over a ten-year period to provide additional funds to support the new army. Earlier this year, parliament approved similar legislation for the navy, and chances are good that special procurement legislation proposed by the air force will also be passed.

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Police prepare assault on Corsican autonomists

FRANCE: THE CORSICAN PROBLEM

The recent gunbattle between 50 Corsicans demanding greater autonomy and 1,000 riot police from the French mainland is a new step in the islanders' campaign for more control over their domestic affairs. The extremist wing of the movement has set off more than 150 bombs on the island during the past four years—concentrating mainly on destroying unoccupied government offices and shops owned by "foreigners"—but until the confrontation last week there had been no deliberate threats to human life.

The Corsicans already had a reputation for rebelliousness when the island was bought by France in 1768 from the Italian Republic of Genoa. Corsicans still speak an Italian dialect and consider themselves a race apart.

The most recent outbreak of violence occurred on August 21 when a group called "Action for the Rebirth of Corsica" (ARC) seized a large farm belonging to a former French colonist from Algeria to dramatize autonomist demands and secure the release of a fellow militant who went on trial that day. As police reinforcements arrived from the mainland the next morning, the besieged Corsicans grabbed six hostages—four North African laborers and two tourists—to exchange for their own freedom. Two policemen were killed and several others wounded before the Corsicans were overwhelmed by tear gas.

The assault on the farm was the first action by the ARC in support of its new, uncompromising manifesto, which calls for an all-out struggle for autonomy. The manifesto was issued at a mass rally on August 17 attended by 8,000 members of ARC—mostly local farmers—and seems to mark a turning point for the group, which since its inception in 1967 had favored legal means in pursuit of its main objective—a locally elected assembly that would have control over the island's domestic affairs.

Most Corsicans do not want independence, but there is widespread support for increased autonomy. Complaints center on the "foreigners," whose economic success contrasts markedly with the worsening condition of native islanders. Corsica now has the highest proportion of unemployed and the second lowest per capita income of any French region.

The most bitter resentment is reserved for 15,000 *pieds noirs*—former colonists in French Algeria—who were resettled in Corsica during the 1960s. The refugees benefited heavily from government subsidies, grants, and loans not available to the Corsicans.

Noted for their industriousness and efficiency, the *pieds noirs* took full advantage of government aid to buy and reclaim barren land and bring in thousands of North African

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laborers to work their farms. Claiming that the *pieds noirs* now own most of the land in Corsica, autonomists demand that all land being farmed by "foreigners" be returned to Corsican control.

Another major grievance is the alleged lack of responsiveness by the highly centralized French government. Corsicans resent the island's lagging industrial development and what they consider to be the lack of a social action program tailored to Corsican needs. Advocates of autonomy accuse Paris of running Corsica like a colony and of being interested only in the island's development as a tourist area.

Tension has remained high on the island since the shoot-out last week. ARC members have attacked businesses owned by *pieds noirs* and "mainlanders" and clashed with police. Yesterday one policeman was killed and 13 were injured by demonstrators protesting the government's decision to ban the ARC movement. The proscribing of the autonomist group and arrest of its leader and ten of its top members have led to predictions of further serious incidents unless Paris backs down and makes important concessions. According to press reports, the *pieds noirs* fear a civil war may be imminent. The incidents of the past week have, in any case, given the Corsican drive for autonomy a momentum that may force Paris to come to grips with the problem.

POLAND: GOING PUBLIC

The Polish regime is showing increasing sensitivity and even some uncertainty over how the population might react to domestic and international events. Warsaw's uneasiness may in part be because most top-level officials are on vacation and the second team is minding the store. It could also reflect genuine concern that the regime may have trouble controlling public reactions.

For example, the media managed for more than two weeks to delay disclosing the details of agreements reached between party chief Gierek and West German Chancellor Schmidt in Helsinki. Polish officials at first claimed that the silence was intended to help the ratification process in Bonn, but their reticence also suggests concern about domestic criticism of the agreements and a desire to prevent an immediate flood of applications for emigration by Poland's ethnic Germans.

When the press finally did dribble out the details, it seemed to distort the contents of the accord in order to give the impression that further Polish demands might be forthcoming. A Foreign Ministry official subsequently disavowed this interpretation, however, blaming it on a lack of press guidance because so many officials were out of town.

The media have also echoed Gierek's defensiveness about the decisions on humanitarian issues at CSCE. In fact, the full text of the Helsinki agreement has not been published. Those excerpts that have been carried have carefully juxtaposed stipulations on sovereignty and noninterference with the passages on freer exchanges. The Polish leadership, like other East European regimes, is no doubt worried that its citizens may expect more from the freer exchange provisions than it is prepared to grant.

Warsaw is also keeping a close watch on popular reaction to its domestic economic policies. In an effort to overcome continuing shortages of meat and milk—and to quiet increased popular grouching about them—the regime announced on August 11 that prices paid to producers would be increased. The regime evidently felt that it was still politically unwise to raise long-frozen consumer prices on these and other food items; this week the government announced instead that retail prices for tobacco would be raised, in some cases as much as 70 percent. Public reaction to this price hike will be watched carefully, since economic necessity may force increases on other nonessential commodities.

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EC: ECONOMIC COOPERATION

Economic and finance ministers of the EC Nine, joined by central bank governors, met in Venice last weekend to discuss what their governments should do to combat persisting economic recession and its consequences for employment within the community. Another purpose was to approve a package that would permit some progress on international monetary reform at next week's IMF meetings in Washington, yet avoid a US-French standoff on Paris' desire to return to fixed exchange rates. An open confrontation on flexible as opposed to fixed parities would embarrass the community, because France's partners are not anxious for an early end to floating currencies.

France has shifted its tactics somewhat in no longer holding up agreement on IMF quota revisions and the role of gold in a future international payments system as hostage to an accord on how flexible the relations between national currencies, or currency blocs, should be. Paris still intends to push for a return to exchange-rate "stability"—and is now even invoking the argument that monetary "uncertainty" plays into communist hands—but may hope to elevate the question to the highest political levels by making it the centerpiece of a summit of the "Big Five" free-world industrial countries that the French want later this year. This meeting may itself be in doubt, however, since the smaller members are objecting vociferously, and the US and Japan are far from enthusiastic.

The package which the EC ministers agreed to in Venice would:

- Allow central banks to make settlements in gold and engage in gold transactions on the open market, subject to the provision that central bank gold stocks not increase over the initial two-year period.
- Have the IMF return one sixth of its gold to members and sell another sixth, with the profits going to benefit the developing countries. (Some ministers, presumably including the French, want the money to be

used to support commodity agreements, while others favor direct aid.)

- Have the IMF quota of the US reduced to below 20 percent, but increase the qualified majority vote on important issues to 85 percent, thereby allowing the US to retain its veto power.

Quotas for national IMF contributions have to be redistributed in order to reflect the growth of the oil countries' monetary reserves. Apart from the question of what effect this will have on US voting strength, the EC is also faced with reallocating quotas among its members. They hope to resolve this problem before the IMF meetings begin.

On overcoming recession, the EC countries, led by Germany and France, continue to stress the importance of reflationary measures by the US and Japan. The Europeans nevertheless seem to be attaching growing importance to the need for improved coordination of efforts within the community; one country's stimulative program could be largely negated by the lack of complementary measures by its EC partners—with whom most of its trade is conducted.

In Venice the ministers pledged their countries to coordinated action, but there is little evidence of any central direction despite EC Commission recommendations, let alone a planned recovery program at the community level. German Chancellor Schmidt is in fact giving the major impetus to policy coordination, especially among the members of the joint float of EC currencies—in which Britain, Italy, and Ireland do not participate.

Italy's own ambitious recovery plans, thought by many economic observers to risk setting off a new inflationary spiral, already overstep Commission suggestions. The measures signaled this week by Germany and France, meanwhile, are probably inadequate, and there is nothing yet to indicate that the Venice session increased or redirected their efforts.

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SECRET**LAOS: LITTLE LEFT TO TAKE**

In a remarkable display of organizational skill, communist cadre on August 23 turned out more than 100,000 people for their long-planned mass rally in Vientiane to formally end the city's joint administration, established under the 1973 peace accords. The event marked the completion of the communist take-over of the country's local governing authorities, and with it the communists have completed the destruction of most non-communist institutions.

The Royal Lao army has been disarmed and integrated into a national army led by the Pathet Lao. Those military officers and civil servants who did not flee the country are thoroughly cowed, and many have been moved deep into the hinterlands for lengthy, humiliating re-education sessions. There is no evidence that any have been executed, but many Lao believe that the participants will never return to Vientiane.

Communist officials and sympathizers in control of local governments throughout Laos have been steadily tightening control over the people by restricting travel, establishing people's militia units, and requiring attendance at daily political indoctrination sessions. No significant active resistance to these efforts has been reported.

The communists thus far have been careful not to formally alter the coalition status of the national government established under the 1973 accords and personified by Prime Minister Souvanna. Communist acting deputy prime minister Phoune Sipraseuth seemed to go out of his way in his speech at the rally to emphasize that the PGNU and the Joint National Political Council, which sets policy guidelines, remain the "supreme administrations." Phao Phimmachan, a senior communist leader who has taken control of the Vientiane area administration, also pledged support for the PGNU and Souvanna.

Such forbearance should not be exaggerated, since the Pathet Lao have the organs of

the national government firmly under their thumb. The real question is how long the communists will see political advantage in retaining the facade of coalition, and how much longer Souvanna and the remaining non-communist political figures will be willing to play their increasingly insignificant roles in a "coalition" now totally weighted in Pathet Lao favor.

Anti-American statements during the speeches were surprisingly subdued, and there were no marches on the embassy or other actions against US or foreign residents. In an effort to tighten security and guarantee attendance, the communists had closed the airport and the Mekong River border, limited vehicular traffic on most city streets, and closed stores, restaurants, and offices.

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KOREA: THE NONALIGNED

The acceptance of North Korea's application for membership in the Conference of Non-aligned Countries in Lima this week--and the rejection of South Korea's parallel bid--will improve Pyongyang's prospects for passing a resolution at the UN General Assembly this fall calling for withdrawal of US forces from South Korea.

Pyongyang has worked hard to win support among the nonaligned in recent years, playing down its military alliances with Peking and Moscow while hitting hard at the continued presence of US forces in South Korea.

The South Koreans, hoping to block a North Korean victory at Lima, mounted a vigorous lobbying campaign themselves among the nonaligned this year. A number of foreign ministers spoke in support of Seoul at the conference, but the North's backers--led by Algeria, Cuba, and Yugoslavia--prevailed.

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Suharto

TIMOR: UP FOR ADOPTION

Lisbon has all but washed its hands of Timor. Admitting that the situation is totally out of control, the Portuguese have evacuated all their military and civilian personnel from the island and called for international humanitarian aid.

Commercial vessels have evacuated most non-Timorese from Dili, and Indonesian naval ships are standing by in the harbor to remove

Jakarta's consulate staff and any other persons who wish to go. The Portuguese governor of the colony and a skeleton staff have moved their headquarters to a small island off the coast. Lisbon has dispatched a special envoy to visit both Jakarta and Dili to discuss what can be done to resolve the situation.

Portugal's public calls for international intervention have thus far been confined to humanitarian assistance. In a public statement on Monday, an Indonesian spokesman said Jakarta believes that humanitarian assistance cannot be separated from the more general task of restoring security and order. The statement called on Lisbon to recognize this and to act accordingly. Lisbon apparently did consult Australia and Indonesia about a joint military effort to help restore order, but Australia refused and Indonesia insisted that it must have full freedom of action. President Suharto wants Lisbon to publicly ask for Indonesian assistance to restore order, but Portuguese President Costa Gomes, apparently for domestic political reasons, has reportedly decided that he cannot do so.

Indonesia's preparations for military intervention, however, have probably advanced too far to turn back now. Suharto's main concern is to couch Indonesian intervention in terms that will avoid accusations of territorial aggression. He will undoubtedly insist that any action Jakarta takes is intended to restore order so that the decolonization process agreed upon earlier can continue and the interests of the Timorese people can be safeguarded.

Recent world-wide publicity about the deteriorating situation in Timor and the Portuguese evacuation of the capital will work to Jakarta's advantage. Unilateral Indonesian action undertaken now, in the name of ending the bloodshed and with the appropriate disclaimers about territorial ambitions, will probably not draw sharp international criticism.

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Sihanouk with North Korean President Kim Il-song

CAMBODIA

THE PERIPATETIC PRINCE

Prince Sihanouk's plans for further travel, following his impending visit to Phnom Penh, suggest that he will continue as an international spokesman for Cambodia, at least through the end of the year. The reception the Cambodian communists give the Prince during his visit may provide some clues concerning the agreement reached in Pyongyang between Sihanouk and Deputy Prime Minister Khieu Samphan and a more precise reading of Sihanouk's future.

Sihanouk's Peking office announced recently that he will deliver a speech to the UN General Assembly "before December," but would stay in New York "only a few hours." Deputy Prime Minister for Foreign Affairs Ieng Sary and Foreign Minister Sarin Chhak will head Cambodia's UN delegation. Press reports indicate the Prince also plans to attend the celebration in Hanoi on September 2 commemorating the 30th anniver-

sary of North Vietnam's founding—perhaps on his way back to Cambodia.

Sihanouk returned to Peking from Pyongyang on Saturday and was met by vice premiers Teng Hsiao-ping and Li Hsien-nien. The date of Sihanouk's departure from Peking is uncertain. Premier Chou En-lai received the Prince and other members of the delegation on August 26, at which time his return to Cambodia was probably discussed.

CAMBODIAN VISIT TO PYONGYANG

The Cambodian delegation wound up its four-day visit to North Korea last Friday with a joint communique in which each side congratulated the other on its achievements, and "complete accord" was said to have been reached. The Cambodian side endorsed the North Korean call for the withdrawal of US forces from South Korea and the replacement of the armistice agreement by a peace treaty. Although no aid commitments were mentioned in the communique, North Korea may have agreed to give Cambodia token economic aid.

The Cambodian delegation participated in a round of public functions in Pyongyang—banquets and a military rally in honor of the Cambodian communist victory—and also met with President Kim Il-song. Although the main purpose of the side trip from Peking was almost certainly to escort Sihanouk back to Peking, the visit afforded the Cambodians an opportunity to reaffirm their North Korean ties following their victory last April.

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INDONESIA: ECONOMY LOOKING UP

The worst of Indonesia's trade and financial problems have passed, and the second half of this year should show steady improvement. Real growth for this year is now estimated at 7-8 percent, and oil earnings should permit this rate to be sustained well into the late 1970s.

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Most of the recent improvement in the payments position derives from higher oil export earnings. After dropping to 70 percent of capacity for several months, output turned up at midyear as the US and Japan began to rebuild stocks. The high profit margins allowed the companies should ensure a progressive increase in production through the end of the year.

The recent pickup in sales, higher average prices, and tax revisions favoring the government will permit Jakarta to exceed last year's oil export earnings. Earnings from other exports, however, will decline by an estimated 20 percent because of soft demand for Indonesian raw materials. Imports, which had been soaring since early 1974, are expected to decline in the second half of 1975. Jakarta last month put a temporary ban on foreign purchases of rice, wheat, sugar, and fertilizer.

Jakarta has overcome the financial crisis that caused default of the state oil company, Pertamina, on a loan earlier this year. It has stepped in as Pertamina's guarantor and covered the immediate payments due on the enormous debt owed by the company—\$1.5 billion in short-term loans and \$1.6 billion in long-term loans. Private foreign banks have advanced \$575 million, enabling a rescheduling of some debt payments. Later this year, the government is expected to call on private foreign banks for an additional \$400 million.

At the same time, Jakarta continues to attract large-scale foreign support for its development projects. Japanese banks and corporations are approaching the final stages of an agreement to put up \$2 billion for constructing the large alumina project at Asahan, Sumatra, and two liquefied natural gas plants. Similar support probably will be arranged for the steel project on Krakatau.

Despite the world recession, Indonesia's domestic economy should fare well this year. Agricultural output will be buoyed by an excellent rice harvest. The slowdown in Pertamina's non-oil projects will put only a minor damper on the tempo of construction. The rate of in-

flation—40 percent in 1974—abated substantially in the first six months of this year. The government's ability to intervene in the market with huge stocks of rice and fertilizer should hold down price rises during the remainder of 1975. [redacted]

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CHINA: TROOPS IN THE FACTORIES

For the second time this month, China's official news service has publicized the dispatch of troops to factories in Chekiang Province; the leaders in Peking are apparently trying to warn other provinces against allowing factionalism to disrupt production. Peking has not used troops in this capacity since the upheavals of the Cultural Revolution in the mid-1960s.

Over 10,000 troops have been sent in the past month to factories in the Chekiang capital of Hangzhou to quell factional disputes that have been paralyzing production and causing civil disorder. Troops were initially dispatched to the Hangzhou factories on July 19. Before taking this step, Peking had sought without success to resolve the long-standing Chekiang problem by consulting with provincial leaders, issuing special directives, and sending high-ranking central government and party leaders to the province.

Recent broadcasts also indicate that a relatively small number of troops are participating in iron and steel production in Inner Mongolia, Kiangsu, and Anhwei. The commitment of troops to these tasks followed recent central directives criticizing sagging iron and steel production. There is no indication that factional problems in these provinces are as bad as in Chekiang. [redacted]

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Communist troops aboard a captured US tank

VIETNAM

MILITARY EQUIPMENT BROKER

With their sudden victory in South Vietnam last spring, Hanoi's forces captured large amounts of US-made military equipment, ranging from small arms to modern ground attack aircraft and significant quantities of munitions.

The communists have a problem deciding how much of this equipment to integrate into their own forces and what to do with any surplus. One of the options is to provide arms to insurgents—a possibility that is causing considerable concern in nearby countries, notably Thailand and Malaysia. Thai insurgents have

received aid from Hanoi in the past, and the North Vietnamese could now increase their support.

Hanoi could also earn hard currency by selling the equipment on the world market. The communists face major economic development costs in both the North and South and need foreign exchange for this. The captured equipment is worth about \$5 billion, and its sale would ease the financial burden of development. A number of countries in Southeast Asia, the Middle East, and Africa are reportedly interested in obtaining the equipment. Hanoi, however, has not yet decided to sell.

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SECRET**Aircraft**

US-made planes are the most valuable military hardware that was captured. The communists seized some 1,100 aircraft, including 75 F-5s and 113 A-37 fighter-bombers. The North Vietnamese apparently are integrating some F-5 and A-37 aircraft, along with MIG fighters from the North, into an air division in the Saigon area. The US-made fighter-bombers give the North Vietnamese a significant ground-attack capability for the first time. Until now, their air force has had a clearly defensive orientation.

Spare parts for the aircraft are in short supply, but the problem does not seem to be insurmountable. The communists can cannibalize other aircraft and may be able to find replacement parts on the international market.

In addition to the fighter-bombers, the communists seized large numbers of helicopters. Among these were about three dozen large transport helicopters and more than 400 smaller combat-support helicopters, including gunships. The North Vietnamese appreciate the helicopters' mobility and firepower and probably will keep some for their own forces; many, however, could still be available for sale. The communists also captured approximately 50 transports, including C-119s and C-130s, and will probably retain some of them.

The North Vietnamese got significant quantities of communications and radar equipment, including relatively sophisticated items such as navigational equipment for all-weather operations. This and other electronic gear will be difficult for them to maintain, and some of it may be passed along to the Soviets and Chinese in exchange for continued support.

Naval Craft

With the take-over, the communists came into possession of some 400 naval craft, which they do not need, and approximately the same number of transports. The naval craft, mostly coastal and river patrol boats along with a few

deepwater ships, may well be available for export. The North Vietnamese have already organized some of the transport ships to ferry cargo between large coastal cities.

Ground Force Weapons

The bulk of the captured US equipment consisted of ground force weapons and munitions. The inventory includes 500 tanks—mostly M-41s and M-48s—approximately 1,200 armored personnel carriers, about 45,000 trucks and jeeps, some 1,300 pieces of artillery, nearly 1 million M-16 rifles and other small arms, and thousands of mortars, antitank weapons, grenade launchers, and machine guns.

Much of this equipment appears surplus to Vietnamese requirements. The North Vietnamese army is already well equipped with Soviet and Chinese hardware, and Hanoi's stockpiles declined little as a result of the spring fighting. The North Vietnamese only recently standardized their weapons, and they probably would be reluctant to change, since US weapons would provide little improvement.

Prospective Purchasers

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A number of prospective purchasers are reportedly waiting for Hanoi to open its doors for business.

Aerial photography [] did show a US-made landing craft loaded with US-made 105-mm. howitzers in Haiphong harbor; this suggests that Hanoi may be stockpiling weapons in preparation for selling them. Since most of the US equipment is readily marketable, it seems likely that Hanoi will eventually sell most of the armor and other ground force equipment, but serious questions of economic advantage, political impact, and international reputation must be decided before Hanoi begins disposing of its stockpile of captured arms.

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THAILAND: POLITICAL TENSIONS

Long-smoldering political tensions broke into the open last week, sparking a wave of violent incidents in Bangkok and shaking public confidence in Prime Minister Khukrit Pramot's government. The most serious incident was the ransacking of Khukrit's house by drunken policemen. Elsewhere in the capital, striking government security guards abducted three Labor Ministry officials, and vocational students burned and looted Thammasat University.

The incidents were not the work of any one group, but rather the result of a general right-wing backlash against leftist student protests. Some military and other senior security officers have long maintained that civilian

rule cannot provide Thailand with civil order and political stability..

More specifically, the police have been upset with the government for releasing—apparently in response to week-long protests by student radicals—nine student and farmer activists who had been arrested for kidnaping local government officials in northern Thailand. Ostensibly, the destruction at Thammasat University was prompted by a desire of the vocational students to avenge the wounding of a comrade during a protest rally there last week, but in reality the violence appears to have been the work of right-wing provocateurs intent on intimidating the students at the university, the ideological fountainhead of the radical left.

Khukrit, finding himself in the middle of the political cross-fire, decided to let the violence play itself out. He was acutely aware that any strong-arm reaction by the government could easily backfire. A crackdown against the students would probably have sparked a new wave of student protests, whereas a move directed at the police would have further alienated conservatives in both the government and the military.

The government's agreement to reopen the investigation of the arrested students has for the moment restored a sense of calm in the streets, but the fundamental distrust between conservatives and the political left remains.

While the episode clearly has tarnished Khukrit's image as a tough and able administrator, his popularity seems largely intact. Nevertheless, Khukrit keeps a wary eye on the generals. He balked at declaring a state of emergency during the height of the disturbances, in part out of fear that it would provide an opportunity for the military to step in. The strongest advocate for such a measure was army commander Krit Siwara.



Khukrit Pramot

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ANGOLA: POPULAR MOVEMENT GAINING

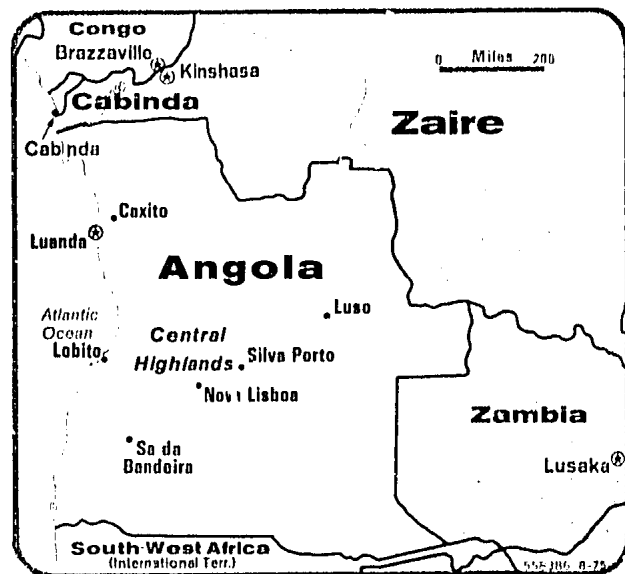
The leftist Popular Movement for the Liberation of Angola has made new territorial gains in the recent fighting in central and southern Angola, which has now tapered off. The Movement's position is enhanced by weaknesses within the two rival liberation groups and the inability of the Portuguese to assert any authority over the territory.

The Popular Movement established itself some time ago as the dominant military and political force in Luanda and the exclave of Cabinda. The recent fighting gave it control of Lobito, Angola's major port, and of most of the more important urban centers along the central coastline between Luanda and Lobito. It also pushed its rivals out of Sa da Bandeira, deep in the territory of the National Union for the Total Independence of Angola.

The National Front for the Liberation of Angola is still entrenched in northern Angola, where it controls two ports. Since mid-July the front has been building a large concentration of troops at Caxito and apparently has moved to within 20 miles of Luanda this week.

The National Union still holds the dominant position in the rich central highlands, particularly in the area around Nova Lisboa and Silva Porto. It is making a determined effort to recapture Luso, in eastern Angola, and apparently is planning an offensive to regain Lobito, without which it has no major supply point.

If the National Union and the National Front can gain the necessary momentum, they may still be able to squeeze the Popular Movement between them and force it to return to a coalition government that can assume sover-



eighty from the Portuguese in November. The Movement may be overextending itself; in some areas it is already stretched thin.

The 22,000 Portuguese troops in the territory are demoralized and distracted by the political struggle in Lisbon and are themselves divided politically. By and large, they have pulled out of the countryside to regroup in the coastal cities in order to protect the evacuation of whites and prepare for their own eventual withdrawal. The Portuguese cannot maintain order outside those cities.

Portuguese officials are attempting to induce the liberation groups to accept a modified version of the defunct four-party transitional government. They are also sending delegations to neighboring African heads of state to enlist their support for a return to a coalition-type government in which all three liberation groups would participate, although with diminished authority. So far, there have been no takers.

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King Husayn (r) and President Asad wave to the crowd during the King's recent visit to Syria

JORDAN-SYRIA: CLOSER COOPERATION

A five-day visit to Syria last week by King Husayn capped a series of steps over the past few months toward closer economic and military cooperation between the two countries.

In a communique issued following the visit, the two countries announced the formation of a "Supreme Syrian-Jordanian Political Command Council" composed of Husayn and Syrian President Asad. The council is supposed to meet at least once every three months to act on recommendations of the ministerial committee formed at the time of Asad's visit to Jordan last June.

The communique avoided any mention of a joint military command, and its specific labeling of the new command council as "political" seems

designed to relieve US apprehensions that a joint military command might be established. The prerogatives of the command council, which is to review plans for "coordination and integration" between the two armed forces, seem sufficiently broad to permit Husayn to keep his options open and to move toward military cooperation with Syria at his own pace.

The communique also lists several other areas in which the two governments are to work together. In addition to planning for a "unified foreign policy," particularly with respect to Arab issues, the command council will discuss coordination of economic and social development plans, the formation of joint economic companies, unification of markets, and the establishment of a unified customs policy.

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The trend toward closer ties between the two countries has created anxiety among some elements of Jordanian society.

Almost without exception, the army is opposed to any fedayeen presence, no matter how controlled. A large number of Jordanians, especially East Bank residents, also fear that in any close relationship with Syria, Jordan will be dominated by her larger, more powerful partner.

Husayn sees many benefits from closer cooperation with Syria. In addition to the obvious economic advantages, the King must be especially pleased by the more moderate attitude of the Asad regime toward Jordan. Conscious, however, of the growing apprehensions among some of his closest supporters over the new relationship, Husayn will move slowly, especially in the area of military cooperation.

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BAHRAIN: END OF AN EXPERIMENT

Bahrain's 20-month experiment with constitutional democracy came to an abrupt end this week when Emir Isa, the ruler of the Persian Gulf island, dissolved the National Assembly, which he had recessed two months ago because it was dragging its feet on a tough law-and-order bill he wanted passed. The dissolution was justified on the grounds that the assembly had worked against the national interest and had become subject to the manipulation of leftists.

Prime Minister Khalifa al-Khalifa, the Emir's brother, subsequently pledged new assembly elections, but the ruling family apparently does not intend to give the experiment in democracy another try in the near term. The constitutional provision requiring new elections within two months of the legislature's dissolution was suspended by the ruler.

Emir Isa's move culminated a carefully orchestrated plan devised by the Khalifas to rid themselves of the recalcitrant assembly. It was set in motion several days earlier by a roundup of leftists and the resignation of the Prime Minister. Khalifa was reappointed hours later and proceeded to form a new government, the Emir having accepted his "condition" that the assembly be dissolved.

Most ministers, including those of interior, defense, finance, and foreign affairs, retained their posts. In a move to suggest action on pressing social and economic problems, four new ministries were created. Earlier reports indicated that the government plans to announce a series of social welfare measures in an effort to secure popular support in the wake of moves against the assembly.

There has been no public reaction to either the dissolution or the roundup of leftists. The arrests were presumably made to forestall agitation against the dissolution. Leftists were caught off guard by the government's move, and for the moment they are more concerned about evading the security forces than with organizing counteraction. Students may demonstrate when schools open in the fall, but most Bahrainis seem indifferent to the demise of the parliament.

When the Emir granted a constitution in late 1973, he expected that the assembly would be a docile participant in the new arrangements. Bahrain's legislators took their responsibilities seriously, however, and resisted the government's efforts to have its way.

The Emir's sudden move to dissolve the assembly is the response to be expected of a ruler accustomed to almost unlimited freedom of action. The government's justification for rounding up leftists exaggerated their subversive threat. Although Bahrain has long had a plethora of clandestine groups, there is little evidence that the immediate security situation was cause for serious concern or that political stability has deteriorated.

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Prime Minister Vorster

NAMIBIA: CONSTITUTIONAL TALKS

A constitutional conference on the future of Namibia (South-West Africa), sponsored by the South African government, opens in Windhoek, the territorial capital, on September 1. South African Prime Minister Vorster claims that the delegates, representing most of the territory's 12 ethnic groups, are free to choose any form of government for Namibia—including independence for the whole territory as a unified state. The make-up of the conference, however, presages the eventual emergence of a loose federal system that would maintain white control of the territory's major mineral resources.

The delegates to the conference have been chosen indirectly by legislative or advisory bodies that have been formed for every ethnic group. A few of the legislative councils for non-white groups have been popularly elected, but even the elected bodies are dominated by old-line tribal chiefs who usually have gone along with South African tutelage.

The South Africans say that all ethnic groups in Namibia are to have equal standing in the conference, even though the groups vary widely in numbers and in their capabilities for autonomous existence. Some 90,000 whites comprise only 12 percent of the population, yet the sector of the territory that is reserved for whites includes much of the better grazing lands as well as the rich diamond and copper mines that contribute substantially to the South

African economy. On the other hand, the Ovambo tribe makes up almost half of the population, but Ovamboland, situated along the Angolan border, has inadequate resources. Ovambos provide most of the unskilled labor for the mines.

Pretoria apparently reasons that fears of Ovambo domination will motivate delegates from the smaller tribes to back the whites in voting for a federal system that will perpetuate the present ethnic homelands. Although the Ovambos theoretically might control a popularly elected central government, the tribal leaders who will go to the conference actually want maximum autonomy for Ovamboland.

A federation might involve no more than cosmetic changes in South Africa's policy of separate development, which has long incurred international censure. Although some of the "petty apartheid" rules that Pretoria has applied in the white sector of Namibia have been lifted, Vorster has not proposed to abandon the basic discriminatory measures that have kept non-whites from advancing in the territory's modern industries.

Inside Namibia, the most articulate opposition to separate development has come from the South-West African People's Organization, which wants Namibia to have a unified, popularly elected government. The People's Organization, whose membership is predominantly Ovambo, is the only Namibian nationalist group recognized by the UN or the Organization of African Unity. Its foreign-based guerrillas have seldom penetrated Namibian territory, but its youth wing organized a highly effective boycott of Ovambo legislative elections in 1973—the first popular elections to be held in Namibia. To offset the fiasco, South African administrators held a new election in Ovamboland last January and achieved a 55-percent turnout of eligible voters.

Vorster may have no illusions that the outcome of the constitutional conference will be acceptable to the UN. His primary intention is

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to show that there is no serious Namibian opposition to separate development. If his case is to gain credibility, the proceedings of the conference must be publicized and any draft constitution must eventually be submitted to a freely conducted referendum. Meanwhile, South African and tribal authorities must refrain from the mass arrests of nationalists they employed in 1973 during the Ovambo elections.

Vorster's strategy has already been threatened by the assassination of the Ovambo prime minister on August 16. Although the identity of the assassin is unknown, the deed has been applauded by several exiled leaders of the People's Organization. Moreover, the principal chief of the Herero ethnic group claims that agents of the People's Organization are plotting his death. The South Africans have reinforced their security forces in Namibia and arrested some members of the People's Organization, but they have not clamped down on the whole group.

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BANGLADESH: REGIME CONSOLIDATES

The new government in Dacca, which came to power in a military-led coup two weeks ago, appears firmly in control. There have been no signs of significant resistance.

Within the army, which dominates the regime, a power struggle between the young officers who led the coup and a faction of senior officers seems to be easing, at least for now. The latter faction appears to have acquiesced in the appointment this week of other senior officers to the country's top military positions. The new army leaders apparently have the support of the coup leadership.

The disgruntled senior officers, unhappy because the coup leaders broke the military chain of command and sought an influential voice in the government, had been threatening to use force against them. The apparent decision of the senior officers to back off probably reflects their uncertainty over whether they could count on the loyalty of key army units and their

awareness that fighting within the military could provide a pretext for Indian intervention.

The power struggle in the army has made it difficult for President Mushtaque Ahmed to establish government policies. Mushtaque has not taken any major steps in the economic sphere; he is said to favor an increased role for private enterprise and foreign investment.

So far, his government has been concentrating on the problem of corruption. Tough martial law regulations have been announced, including one that empowers the government to deal harshly with corrupt activities by past and present government officials. A number of high officials from the late president Mujib's government and Awami League party have been arrested on charges of having illegally enriched themselves.

The new government has continued to make efforts to convince India of its desire for friendly relations. The Indians have been particularly concerned that the regime's apparent Islamic orientation—a departure from Mujib's heavy emphasis on secularism—could frighten many of Bangladesh's 10 million Hindus into fleeing to eastern India. To reassure New Delhi, Dacca has announced that Bangladesh remains a secular state. But it is likely to remain interested in improving relations with Pakistan, whose friendship it views as necessary if it is to obtain economic aid from the Islamic countries and establish ties with China.

New Delhi is trying, at least for now, to maintain good relations with Dacca. The Indians have assured the new regime of their friendly intentions and reportedly have banned anti-Bangladesh propaganda in India. They have also denied earlier rumors that they had reinforced army units near the Bangladesh border. New Delhi acknowledges, however, that it has strengthened its paramilitary border security forces as a precaution against a refugee exodus from Bangladesh, should communal strife occur there. India and the Soviet Union have given de facto recognition to the new regime.

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Fidel Castro with Raul Castro (I) and President Dorticos

CUBA: REACTING TO US MOVE

The announcement of the partial lifting of the US embargo so as to allow American subsidiaries abroad to trade with Cuba received a swift and favorable reaction last week in Havana. Prime Minister Fidel Castro continued to insist, however, on termination of the embargo on direct trade between the two countries as a prerequisite to what he called "deep negotiations."

Speaking to a news conference on the occasion of Mexican President Echeverria's visit, Castro made clear his desire to continue the momentum in Cuban-US relations. He called the move a positive gesture that "implies an advance toward the possibility of creating conditions that will allow us to engage in discussion on an equal basis and with dignity." Furthermore, he stated, "We are willing to negotiate with the US with absolute seriousness, frankness, and responsibility. But we would not like to do so with a dagger at our throat."

Even with the embargo still in effect, Castro appears willing to countenance "negotiations on

how to negotiate." He publicly acknowledged an interest in preliminary discussions with official US representatives, but he resurrected some familiar themes concerning his government's likely bargaining strategy. Castro indicated that Havana intends to counter US demands for compensation for expropriated American property with claims for restitution for the damage inflicted by the economic denial program. He also mentioned the return of the US naval base at Guantanamo as a problem that will have to be resolved.

Castro is in no hurry and appears confident that he does not have to make any significant concessions. He apparently believes Washington is under more pressure than he is to make the next move. Some in the Cuban leadership will view the lifting of the third-country sanctions as primarily an effort by the US to end its problems with governments that have urged Washington to allow local subsidiaries of US companies to trade with Cuba. As a consequence, the most Havana is likely to do of a concrete nature is to release a few US political prisoners.

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ARGENTINA: THE MILITARY PRESSES

The replacement of army commander in chief General Numa Laplane and the reported retirement from active duty of Interior Minister Damasco as a result of strong military pressure have defused yet another crisis. A military revolt has been averted for the time being, but military critics of the administration are in a much stronger position. They may yet seek Damasco's removal from the cabinet.

The new army commander is General Jorge Rafael Videla, formerly head of the armed forces joint staff and one of the leaders of the group that pressed hardest for the changes. He and others in the group are said to be more disposed than other top officers to the idea of a military take-over.

The appointment of Damasco, a 48-year-old army colonel, to the cabinet earlier this month sparked considerable unhappiness among a number of top military commanders. Publicly they claimed that their opposition stemmed from the fear that Damasco's elevation would be interpreted as military interference in the government. They also raised the issue of protocol problems posed by the elevation of a colonel to a position technically above that of a general.

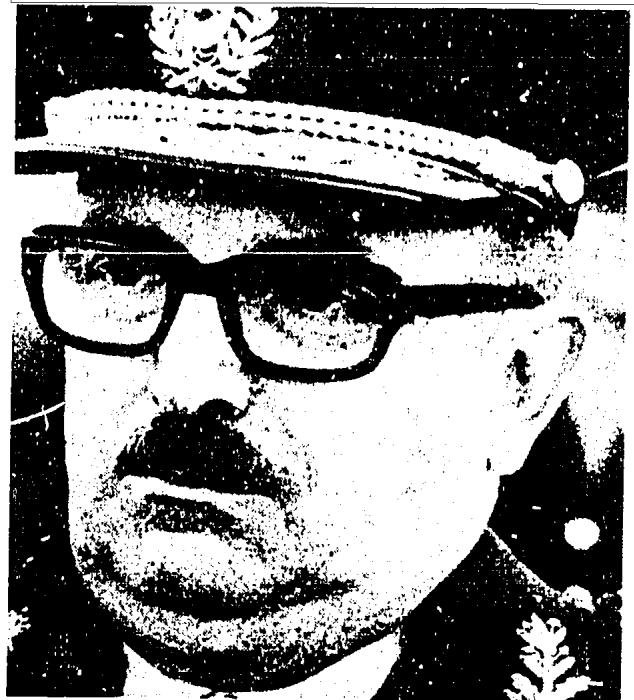
Actually, Damasco's rise, supported by Numa Laplane, raised other, more fundamental problems for them. There was considerable resentment of Damasco's prominent role in forming the new cabinet—he directed the process—and his failure to consult fellow officers. There was widespread anxiety that Damasco, already a second-echelon presidential adviser and an opportunist long identified with Peronism, was seeking to build an image of indispensability, as the ousted Lopez Rega had done before him. Top officers also regarded his presence in the cabinet while on active duty as linking the armed forces to a hopelessly inept government.

Early in the controversy the army issued a communique acknowledging the President's

legal right to name to the cabinet an officer on active duty but dissociating the service from active support for him. Despite this attempt to paper over the problem, it became apparent that the issue was important and potentially divisive. A desire to preserve military unity may well have been the reason even uncommitted officers eventually joined the ranks of those who had opposed Damasco and Numa Laplane from the beginning.

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The military's strong stand against Damasco and Numa Laplane points up several factors. Like it or not, the officers are intimately involved in national politics. Moreover, military conservatives have gained the upper hand and thus are in an even better position to exert pressure on the government, or even alter or replace it. Indeed, most Argentines will probably interpret the military's move as signaling its intention to take a still more active role in national decision-making.



General Numa Laplane

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Venezuelan congressmen applaud following their approval of a bill nationalizing the oil industry

VENEZUELA: AFTER NATIONALIZATION

On the same day that the oil nationalization bill was passed by the Venezuelan Congress, the government set forth its position on the future of the foreign companies.

Mines Minister Valentin Hernandez announced on August 21 that the large operating concessionaires, Exxon, Gulf, Texaco, Shell, and Mobil, will remain basically intact for three or four years until a more efficient organization is developed. Petroleos de Venezuela (Petroven), the holding company established by the government, will have overall responsibility for directing and administering the industry. Each company will come under Petroven and will have a board of directors composed entirely of Venezuelans.

After reversion, technical assistance contracts to be negotiated with the oil companies will allow foreign technicians to remain in Venezuela and will permit additional personnel to be

brought in as needed to help run the industry. These contracts will be of limited duration, possibly two years, but may be extended if the government considers such action advantageous. Caracas hopes international marketing of oil will continue unchanged between Petroven and the present buyers, but Hernandez has noted that negotiations on this issue are likely to prove troublesome. At least initially, Venezuela will need the oil companies' marketing skill, but the companies are unlikely to be interested in smoothing the way for sales of oil they no longer own.

The government is allowing the oil industry, under Petroven, to operate as before in order to ensure continuous production and thus keep the workers from demanding benefits they would be entitled to if the companies ceased to exist. The government thus hopes to avert strikes, such as those staged after the iron companies were nationalized.

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CANADA: LABOR MILITANCY

Despite rising unemployment, Canada is getting no respite from labor's push for higher wages. Rather than confront the unions directly, Ottawa hopes to take the starch out of their demands by letting the economic slide run its course. In the interim, rising wage costs are aggravating inflation, and Canada's international competitive position is slipping.

Labor unions show no sign of moderating their wage demands after winning record 15-percent gains last year. This year, hourly rates are up 19 percent, while labor productivity has remained unchanged. In addition to cost-of-living adjustments, the many small unions are holding out for wage schedules similar to those in higher paying industries and regions. Paper mill workers in Ontario, for example, are pressing for a 42-percent increase over the next year to bring hourly rates in line with those in other basic industries.

Unions are backing their demands with lengthy, disruptive walkouts. Strikes at pulp and paper mills since mid-July have reduced Canada's paper production capacity by 30 percent. Based on the number of walkouts to date and the schedule of coming contracts, time lost from strikes this year will approach the record 9.3 million man-days in 1974. From now until the end of the year, contracts covering one million workers—including railway, mining, construction, and textile workers—come up for negotiations.

The wage spiral has given a strong shove to labor costs and inflation. Unit labor costs in manufacturing rose at a 20-percent annual pace in the first half of 1975—double last year's rate. Canada thus suddenly finds itself facing one of the worst inflation problems of any major country. Industrial wholesale prices have moved up 14 percent annually since the start of 1975,

and consumer prices have risen 9 percent. The comparable US figures are 5.6 and 6.8 percent.

The wage spiral has already pushed hourly rates in many industries above US levels—a marked change from the early 1970s, when Canadian firms enjoyed a 10-15 percent wage advantage. The loss in competitiveness is partly responsible for Canada's growing trade deficit in manufactured goods. Since January, this deficit has been running at a \$9 billion annual rate, up from \$8 billion in 1974 and \$700 million in 1970.

The rapid rise in unit labor costs, the increasing frequency of strikes, and the general atmosphere of labor militancy have made Canada less attractive for foreign investment. US manufacturers have lost some of their enthusiasm for investing in a country where unit labor costs have been increasing at nearly double the US rate since 1970.

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To avoid adding fuel to wage demands, Ottawa is maintaining its go-slow policy toward stimulating the sagging economy.

It is also permitting the Canadian dollar to drift downward to help compensate for the loss in competitiveness. Since early 1975 the Canadian dollar has depreciated 3 percent, and most observers expect a further 3- to 5-percent slump before the end of the year. This would hike the cost of imported manufactures, but at the same time it would cushion the impact of sharply rising labor costs on Canada's international competitive position.

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ECUADOR MOVES TO THE RIGHT

Reacting to economic setbacks, complaints from commercial and industrial sectors, and criticism from the press and proscribed political parties, the Rodriguez government is moving slightly to the right. In recent weeks, private business groups have made known their concern regarding the deteriorating state of the economy as manifested in lower foreign exchange earnings, deficits in the balance of payments, reduced reserves, and a decrease in foreign investment.

To allay this concern, the government has expanded incentives for petroleum exploration, which had virtually ceased in the face of restrictive legislation. The government has also criticized the former natural resources minister, who was responsible for creating this problem, and appointed a pragmatic, middle-of-the-road director of national planning. It intends also to replace leftist-oriented doctrinaire economists and technicians who had created for themselves a "malevolent role affecting all areas of the economy and society."

The confusion in the Ministry of Commerce—a new minister has just been named following the resignation of two others—is being attributed in Quito to the influence of leaders of industry and commerce. Appointments below cabinet rank also reflect a government effort to meet the needs of business.

In another area, President Rodriguez has made several speeches whose purpose apparently has been to assure the public and to reduce anxieties regarding his regime's intentions. In these speeches, Rodriguez has stressed that his goals are to eliminate the differences between military and civilian attitudes and to establish peace and harmony. At the same time, he has denied that the military intends to create a military state or to perpetuate itself in power.

Rodriguez' primary concern has been to take the heat out of recent criticism of his regime, and some of his actions should have this effect. His moves also appear to be a tacit admission that his government has not been able to cope with major problems facing the country. Rodriguez may also be trying to portray himself as more democratically oriented in order to build a following that will support his candidacy in the event that he decides presidential elections should be held.

Any hopes that Rodriguez will respond to pressure to move further to the right are likely to be short-lived. No person or group thus far is capable of removing the President by force, but the political discontent brewing for more than three and a half years may begin to boil in coming months.

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